

ELK RAPIDS HOUSING COMMISSION  
ELK RAPIDS, MICHIGAN  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Elk Rapids Housing Commission</b>	County
Audit Date <b>9/30/05</b>	Opinion Date <b>12/19/05</b>	Date Accountant Report Submitted to State: <b>12/20/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

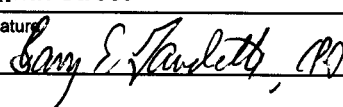
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Barry E. Gaudette, CPA, PC</b>			
Street Address <b>1107 E. Eighth Street</b>	City <b>Traverse City</b>	State <b>MI</b>	ZIP <b>49686</b>
Accountant Signature 			Date <b>12/20/05</b>

ELK RAPIDS HOUSING COMMISSION  
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INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

I have audited the accompanying financial statements of the business-type activities of the Elk Rapids Housing Commission, Michigan, a component unit of the City of Elk Rapids, as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Elk Rapids Housing Commission, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Elk Rapids Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated December 19, 2005, on my consideration of Elk Rapids Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on page 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that comprise Elk Rapids Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bary E. Finkbeiner, CPA, PC*

December 19, 2005

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
September 30, 2005  
=====

Elk Rapids Housing Commission, created in 1971, by the Village of Elk Rapids provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Elk Rapids Housing Commission consists of two programs. The first is owned housing, consisting of 20 units of public housing and the second is the capital funding program. Elk Rapids Housing Commission had total revenues of \$109,896 that includes \$53,540 in rental payments and \$51,467 in federal assistance. Total operating expenses were \$115,525, that includes \$29,367 in administrative expenses, \$24,552 in utilities, \$24,901 in ordinary maintenance expenses, and \$29,306 in depreciation expense. Total revenues decreased by \$7,473 from the prior year and operating expenses increased by \$4,501 over the prior year for a net decrease of \$11,974, due to increases in utilities, ordinary maintenance, and decreases in federal grants.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$467,603. The Housing Commission's total net assets decreased by \$5,629 from the prior year. The decrease is attributable in part to an increase in utilities and ordinary maintenance expenses and a decrease in federal operating and capital grants.

Total assets of the Housing Commission were \$472,988 including \$121,746 of current assets and \$351,242 of net property and equipment assets. The Housing Commission had current liabilities of \$5,385. Assets decreased, in part, by \$10,935 from the prior year due to the depreciation expense of \$29,306.

The financial condition of the Housing Commission has not changed materially from the prior year, but the Net Assets did decrease by \$5,629 from the prior year.

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)

September 30, 2005

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Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

The financial position of Elk Rapids Housing Commission has not changed significantly in the past year. The biggest change is in the cost of utilities. We have not improved or deteriorated.

Elk Rapids Housing Commission has not committed capital funding money for this coming year yet. There is serious discussion regarding the purchase of a generator for emergencies and also building patios in front of all units. During the current fiscal year ending September 30, 2005, capital outlays included the following; bathroom fans, drapes, walk-in showers, carpet, and a security system.

Currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations are as follows: If patios are approved some money will be used from savings to cover the cost. Also, if utilities continue to increase and subsidies decrease, this will affect our savings.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Barbara George, Executive Director  
701 Chippewa Street  
Elk Rapids, Michigan 49629



ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)  
September 30, 2005  
=====

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 121,746	\$ 131,376	\$ ( 9,630)
Property and equipment	<u>351,242</u>	<u>352,547</u>	<u>( 1,305)</u>
Total assets	<u>\$ 472,988</u>	<u>\$ 483,923</u>	<u>\$ ( 10,935)</u>
Current liabilities	\$ 5,385	\$ 10,691	\$ ( 5,306)
Total liabilities	<u>5,385</u>	<u>10,691</u>	<u>( 5,306)</u>
Net assets:			
Invested in capital assets	351,242	352,547	( 1,305)
Unrestricted net assets	<u>116,361</u>	<u>120,685</u>	<u>( 4,324)</u>
Total net assets	<u>467,603</u>	<u>473,232</u>	<u>( 5,629)</u>
Total liabilities and net assets	<u>\$ 472,988</u>	<u>\$ 483,923</u>	<u>\$ ( 10,935)</u>

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)

September 30, 2005

=====

**Financial Analysis of the Housing Commission (continued)**

The following table summarizes the statement of activities of the Housing Commission for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 53,540	\$ 48,795	\$ 4,745
Total operating revenues	<u>53,540</u>	<u>48,795</u>	<u>4,745</u>
<b>Operating expenses:</b>			
Administration	29,367	29,913	( 546)
Tenant services	688	714	( 26)
Utilities	24,552	22,351	2,201
Ordinary maintenance and operation	24,901	20,911	3,990
General expenses	6,711	8,126	( 1,415)
Depreciation	<u>29,306</u>	<u>29,009</u>	<u>297</u>
Total operating expenses	<u>115,525</u>	<u>111,024</u>	<u>4,501</u>
Operating income(loss)	<u>( 61,985)</u>	<u>( 62,229)</u>	<u>244</u>
<b>Non-operating revenue:</b>			
Interest income	3,680	2,240	1,440
Other income	1,209	1,443	( 234)
Gain on sale of fixed assets		325	( 325)
Operating grants	28,085	35,900	( 7,815)
Capital grants	<u>23,382</u>	<u>28,666</u>	<u>( 5,284)</u>
Total nonoperating revenue	<u>56,356</u>	<u>68,574</u>	<u>( 12,218)</u>
<b>Change in Net Assets</b>	<u><u>\$ ( 5,629)</u></u>	<u><u>\$ 6,345</u></u>	<u><u>\$ ( 11,974)</u></u>

FINANCIAL STATEMENTS

ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
September 30, 2005  
=====

ASSETS

Current Assets:

Cash	\$ 5,824
Accounts receivable-miscellaneous	143
Accrued interest receivable	1,060
Investments-unrestricted	112,677
Prepaid expenses	<u>2,042</u>

Total Current Assets	<u>121,746</u>
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Property and Equipment:

Land	104,946
Buildings	624,355
Equipment	9,396
Construction in progress	<u>23,382</u>
	762,079
Less: accumulated depreciation	<u>( 410,837)</u>

Net Property and Equipment	<u>351,242</u>
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Total Assets	<u>\$ 472,988</u>
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See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
September 30, 2005  
=====

LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 69
Accrued expenses	732
Tenant security deposit liability	<u>4,584</u>

Total Current Liabilities	<u>5,385</u>
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Total Liabilities	<u>5,385</u>
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Net Assets:

Invested in capital assets	351,242
Unrestricted net assets	<u>116,361</u>

Total Net Assets	<u>467,603</u>
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Total Liabilities and Net Assets	<u><u>\$ 472,988</u></u>
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See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**STATEMENT OF ACTIVITIES**  
Year Ended September 30, 2005  
=====

**OPERATING REVENUES:**

Dwelling rent	\$ 53,540
Non-dwelling rent	
Total operating revenues	<u>53,540</u>

**OPERATING EXPENSES:**

Administration	29,367
Tenant services	688
Utilities	24,552
Ordinary maintenance and operation	24,901
General expenses	6,711
Depreciation	<u>29,306</u>
Total operating expenses	<u>115,525</u>

Operating income(loss) ( 61,985)

**NONOPERATING REVENUES:**

Investment interest income	3,680
Other income	1,209
Capital grants	23,382
Operating grants	<u>28,085</u>

Total nonoperating revenues 56,356

Change in net assets ( 5,629)

Prior period adjustments, equity transfers  
and correction of errors 1,304

Net assets, beginning 471,928

Net assets, ending \$ 467,603

See notes to financial statements

ELK RAPIDS HOUSING COMMISSION  
**STATEMENT OF CASH FLOWS**  
Year Ended September 30, 2005  
=====

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling rents	\$ 53,540
Cash payments to other suppliers of goods and services	( 48,270)
Cash payments to employees for services	( 35,201)
Cash payments for in lieu of taxes	<u>( 7,488)</u>

Net cash (used) by operating activities	<u>( 37,419)</u>
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**CASH FLOWS FROM NONCAPITAL  
FINANCING ACTIVITIES:**

Tenant security deposits	532
Operating grants	28,085
Other revenue	<u>1,066</u>

Net cash provided by noncapital financing activities	<u>29,683</u>
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**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES:**

Capital grants	23,382
Payments for capital acquisitions	<u>( 28,001)</u>

Net cash (used) by capital and related financing activities	<u>( 4,619)</u>
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**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investments increased	( 12,202)
Receipts of interest and dividends	<u>2,620</u>

Net cash (used) by investing activities	<u>( 9,582)</u>
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Net increase(decrease) in cash	( 21,937)
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Cash, beginning	<u>27,761</u>
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Cash, ending	<u>\$ 5,824</u>
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ELK RAPIDS HOUSING COMMISSION  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended September 30, 2005  
=====

RECONCILIATION OF CASH AND CASH  
EQUIVALENTS PER STATEMENT OF CASH  
FLOWS TO THE BALANCE SHEET:

Cash and cash equivalents per balance sheet	\$ 5,824
Investments-unrestricted	<u>112,677</u>
	<u>\$ 118,501</u>

SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:

Operating income(loss)	\$( 61,985)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	29,306
Adjustments	1,304
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Prepaid expenses	903
Inventories	195
Increase (decrease) in liabilities:	
Accounts payable	35
Accrued wages/payroll taxes	311
Accrued payments in lieu of taxes	<u>( 7,488)</u>
Net cash (used) by operating activities	<u>\$( 37,419)</u>

See notes to financial statements



ELK RAPIDS HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2005  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Elk Rapids Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

Elk Rapids Housing Commission is a component unit of the Village of Elk Rapids. The Housing Commission is a Public Housing Agency created by the Village of Elk Rapids on March 31, 1971, consisting of a five member board appointed by the Village Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Elk Rapids Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3093, the Housing Commission constructed, maintains and operates 20 units of subsidized housing in the Village of Elk Rapids, Michigan.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

## **Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

## **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Elk Rapids Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

## **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

### Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

### Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

### Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

### Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Furniture, equipment and machinery	5 years
Building improvements	15 years

### Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

## Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

## Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

## Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave, employees terminating employment for any reason are entitled to payment for all accrued unused vacation time, calculated on pro rata basis.
- \* Sick leave, there is not a policy for sick leave.
- \* Personal leave, unpaid personal leaves of absence for a period of up to thirty (30) days may be requested. If more time is required for leave, approval is needed by the Commission.

Personal leave may be granted for justifiable reasons and granted only after all accrued unused vacation leave has been exhausted.

The amount of accumulated benefits at September 30, 2005, was minimal, and is not recorded as a liability in the applicable funds.

## Post Employment Benefits

The Housing Commission does not provide any post employment benefits.

## Income Taxes

As a component unit of a Michigan village, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

## NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

### Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$5,739 and the bank balance was \$8,205 of which \$8,205 was covered by federal depository insurance. The Housing Commission has \$50 in petty cash, \$25 in a change fund, and Laundry equipment change fund of \$10.

### Investments

The Housing Commission had the following investments at the following banks as of September 30, 2005:

Fifth Third Bank-C.D. (#007-0605916492)	\$ 27,982
Fifth Third Bank-C.D. (#008-0606070310)	15,052
Fifth Third Bank-C.D. (#605316980)	13,048
Fifth Third Bank-C.D. (#006-0606020364)	10,117
LaSalle Bank- C.D. (#870038453-3)	45,443
LaSalle Bank- Savings (#50513)	<u>1,035</u>
	<u>\$ 112,677</u>

*Interest Rate Risk* - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose

collateralization in the following form and percentages:

- |    |                                  |   |          |
|----|----------------------------------|---|----------|
| 1. | U.S. Treasury Notes              | - | 100%; or |
| 2. | U.S. Treasury Notes and/or Bonds | - | 75% and  |
| 3. | Mortgage Backed Securities       | - | 25%      |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$	85
Carrying amount of deposits		5,739
Investments		<u>112,677</u>
Total	\$	<u>118,501</u>
Cash and cash equivalents:		
Enterprise activities	\$	120,967
Enterprise activities - checks written in excess of deposits		<u>( 2,466)</u>
Total	\$	<u>118,501</u>

#### NOTE 3: RECEIVABLES AND PAYABLES

##### Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2005, there were not any rents owed by tenants.

##### Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund receivables or payables as of September 30, 2005.

There were not any Individual fund operating transfers during the fiscal year.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
<b>Low Rent Program</b>				
Land	\$ 95,593	\$ 9,353	\$	\$ 104,946
Buildings	592,058	32,297		624,355
Furniture, equip. & machinery - administration	9,397		1	9,396
	697,048	\$ 41,650	\$ 1	738,697
Less accumulated depreciation	( 381,531)	\$ ( 29,046)	\$	( 410,577)
Total	<u>\$ 315,517</u>			<u>\$ 328,120</u>
<b>Capital Fund Program</b>				
Construction in progress	\$ 37,030	\$ 23,382	\$ 37,030	\$ 23,382
Less accumulated depreciation		( 260)		( 260)
Total	<u>\$ 37,030</u>	<u>\$ 23,122</u>	<u>\$ 37,030</u>	<u>\$ 23,122</u>
<b>Combined Totals</b>				<u>\$ 351,242</u>

**NOTE 5: INVESTED IN CAPITAL ASSETS**

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning(contributed capital)	\$ 352,547
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	( 1,305)
Balance, ending	<u>\$ 351,242</u>

**NOTE 6: OTHER INFORMATION****A. Pension Plan**

The Housing Commission does not provide a pension plan for eligible full-time employees.

**B: Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

**C: Risk Management and Litigation**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

**D: Prior Period Adjustments, Equity Transfers and  
Correction of Errors**

Low Rent Program

Adjustment of prior year accruals	\$ 1,304
Equity transfer completed CFP 501-02	21,927
Transfer completed CFP 501-03	14,987
Transfer completed CFP 502-03	<u>116</u>
	<u>\$ 38,334</u>

Capital Fund Program

Equity transfers	
soft cost	<u>\$ ( 37,030)</u>



**NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2005, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
<b>Condensed Statement of Net Assets</b>		
Current assets	\$ 121,746	\$
Property and equipment	328,120	23,122
Total assets	<u>\$ 449,866</u>	<u>\$ 23,122</u>
Current liabilities	\$ 5,385	\$
Total liabilities	<u>5,385</u>	
Net assets:		
Invested in capital assets	328,120	23,122
Unrestricted net assets	116,361	
Total net assets	<u>444,481</u>	<u>23,122</u>
Total liabilities and net assets	<u>\$ 449,866</u>	<u>\$ 23,122</u>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>		
Dwelling rents	\$ 53,540	\$
Depreciation	( 29,046)	( 260)
Other operating expenses	( 86,219)	
Operating(loss)	<u>( 61,725)</u>	<u>( 260)</u>
Nonoperating revenues:		
Investment interest income	3,680	
Other income	1,209	
Capital grants		23,382
Operating grants	<u>28,085</u>	
Change in net assets	<u>( 28,751)</u>	<u>23,122</u>
Prior period adjustments, equity transfers and correction of errors	38,334	( 37,030)
Beginning net assets	<u>434,898</u>	<u>37,030</u>
Ending net assets	<u>\$ 444,481</u>	<u>\$ 23,122</u>
<b>Condensed Statement of Cash Flows</b>		
Net cash provided(used) by:		
Operating activities	\$ ( 37,419)	\$
Noncapital financing activities	29,683	
Capital and related financing activities	( 4,619)	
Investing activities	<u>( 9,582)</u>	
Net increase(decrease)	<u>( 21,937)</u>	
Beginning cash and cash equivalents	<u>27,761</u>	
Ending cash and cash equivalents	<u>\$ 5,824</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
 September 30, 2005

=====

C-3093	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**ASSETS**

Current assets:

Cash	\$ 5,824	\$
Accounts receivable-miscellaneous	143	
Accrued interest receivable	1,060	
Investments-unrestricted	112,677	
Prepaid expenses	<u>2,042</u>	
Total current assets	<u>121,746</u>	

Property and equipment:

Land	104,946	
Buildings	624,355	
Equipment	9,396	
Construction in progress		<u>23,382</u>
	<u>738,697</u>	<u>23,382</u>
Less accumulated depreciation	<u>( 410,577)</u>	<u>( 260)</u>
Net property and equipment	<u>328,120</u>	<u>23,122</u>
Total Assets	<u>\$ 449,866</u>	<u>\$ 23,122</u>

Totals

\$ 5,824

143

1,060

112,677

2,042

121,746

104,946

624,355

9,396

23,382

762,079

( 410,837)

351,242

\$ 472,988

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
September 30, 2005  
=====

C-3093	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**LIABILITIES and NET ASSETS**

Current liabilities:

Accounts payable	\$ 69	\$
Accrued wage/payroll taxes payable	732	
Tenant security deposit liability	<u>4,584</u>	<u>          </u>
 Total current liabilities	 <u>5,385</u>	 <u>          </u>
 Total liabilities	 <u>5,385</u>	 <u>          </u>

Net assets:

Invested in capital assets	328,120	23,122
Unrestricted net assets	<u>116,361</u>	<u>          </u>
 Total net assets	 <u>444,481</u>	 <u>23,122</u>
 Total Liabilities and Net Assets	 <u>\$ 449,866</u>	 <u>\$ 23,122</u>

Totals

\$ 69  
732  
4,584

5,385

5,385

351,242  
116,361

467,603

\$ 472,988

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF ACTIVITIES**  
 Year Ended September 30, 2005  
 =====

	C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 53,540	\$
Nondwelling rent		
Total operating revenues	<u>53,540</u>	
<b>OPERATING EXPENSES:</b>		
Administration	29,367	
Tenant services	688	
Utilities	24,552	
Ordinary maintenance and operation	24,901	
General expenses	6,711	
Depreciation	<u>29,046</u>	<u>260</u>
Total operating expenses	<u>115,265</u>	<u>260</u>
Operating income(loss)	<u>( 61,725)</u>	<u>( 260)</u>
<b>NONOPERATING REVENUES AND (EXPENSES):</b>		
Investment interest income	3,680	
Other income	1,209	
Capital grants		23,382
Operating grants	<u>28,085</u>	
Total nonoperating revenues (expenses)	<u>32,974</u>	<u>23,382</u>
Change in net assets	( 28,751)	23,122
Prior period adjustments, equity transfers and correction of errors	38,334	( 37,030)
Net assets, beginning	<u>434,898</u>	<u>37,030</u>
Net assets, ending	<u>\$ 444,481</u>	<u>\$ 23,122</u>

Totals

\$ 53,540

53,540

29,367  
688  
24,552  
24,901  
6,711  
29,306

115,525

( 61,985)

3,680  
1,209  
23,382  
28,085

56,356

( 5,629)

1,304  
471,928

\$ 467,603



ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
 Year Ended September 30, 2005  
 =====

	C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 53,540	\$
Cash payments to other suppliers of goods and services	( 48,270)	
Cash payments to employees for services	( 35,201)	
Cash payments for in lieu of taxes	<u>( 7,488)</u>	
Net cash (used) by operating activities	<u>( 37,419)</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Tenant security deposits	532	
Operating grants	28,085	
Other revenue	<u>1,066</u>	
Net cash provided by noncapital financing activities	<u>29,683</u>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants		23,382
Payments for capital acquisitions	<u>( 4,619)</u>	<u>( 23,382)</u>
Net cash (used) by capital and related financing activities	<u>( 4,619)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments increased	( 12,202)	
Receipts of interest and dividends	<u>2,620</u>	
Net cash (used) by investing activities	<u>( 9,582)</u>	
Net increase(decrease) in cash	( 21,937)	
Cash, beginning	<u>27,761</u>	
Cash, ending	<u><u>\$ 5,824</u></u>	<u><u>\$</u></u>

Totals

\$ 53,540

( 48,270)

( 35,201)

( 7,488)

( 37,419)

532

28,085

1,066

29,683

23,382

( 28,001)

( 4,619)

( 12,202)

2,620

( 9,582)

( 21,937)

27,761

\$ 5,824

ELK RAPIDS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
 Year Ended September 30, 2005  
 =====

C-3093	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH  
 EQUIVALENTS PER STATEMENT OF  
 CASH FLOWS TO THE BALANCE SHEET:**

Cash and cash equivalents per balance sheet	\$ 5,824	\$
Investments-unrestricted	<u>112,677</u>	<u>          </u>
	<u>\$ 118,501</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME  
 TO NET CASH FLOW FROM OPERATING  
 ACTIVITIES:**

Operating income(loss)	\$ ( 61,725)	\$ ( 260)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	29,046	260
Adjustments	1,304	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Prepaid expenses	903	
Inventories	195	
Increase (decrease) in liabilities:		
Accounts payable	35	
Accrued wages/payroll taxes	311	
Accrued payments in lieu of taxes	<u>( 7,488)</u>	<u>          </u>
Net cash (used) by operating activities	<u>\$ ( 37,419)</u>	<u>\$</u>

Totals

\$ 5,824  
112,677

\$ 118,501

\$ ( 61,985)

29,306  
1,304

903  
195

35  
311

( 7,488)

\$ ( 37,419)

ELK RAPIDS HOUSING COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS  
Year Ended September 30, 2005  
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 28,085
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	<u>23,382</u>
	Total		<u>\$ 51,467</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the  
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

## ELK RAPIDS HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE

Year Ended September 30, 2005

=====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 5,824	\$
100	Total cash	<u>5,824</u>	
	Receivables:		
125	A/R-miscellaneous	143	
129	Accrued interest receivable	<u>1,060</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>1,203</u>	
	Current Investments:		
131	Investments-unrestricted	<u>112,677</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>2,042</u>	
150	Total current assets	<u>121,746</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	104,946	
162	Buildings	624,355	
164	Furn, equip & mach-admin.	9,396	
166	Accumulated depreciation	( 410,577)	( 260)
167	Construction in progress		<u>23,382</u>
160	Total fixed assets, net of accumulated depreciation	<u>328,120</u>	<u>23,122</u>
180	Total noncurrent assets	<u>328,120</u>	<u>23,122</u>
190	Total Assets	<u>\$ 449,866</u>	<u>\$ 23,122</u>

Totals

\$ 5,824

5,824

143  
1,060

1,203

112,677

2,042

121,746

104,946  
624,355  
9,396  
( 410,837)  
23,382

351,242

351,242

\$ 472,988

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2005  
 =====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES AND EQUITY/NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 69	\$
321	Accrued wage/payroll taxes payable	732	
341	Tenant security deposits	<u>4,584</u>	
310	Total current liabilities	<u>5,385</u>	
300	Total liabilities	<u>5,385</u>	
	Equity:		
508.1	Invested in capital assets	<u>328,120</u>	<u>23,122</u>
508	Total equity	328,120	23,122
	Net Assets:		
512.1	Unrestricted net assets	<u>116,361</u>	
513	Total net assets	<u>444,481</u>	<u>23,122</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 449,866</u>	<u>\$ 23,122</u>



Totals

\$ 69

732  
4,584

5,385

5,385

351,242

351,242

116,361

467,603

\$ 472,988

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2005

FDS Line Item No.		C-3093 Low Rent Program 14.850	Capital Fund Program 14.872
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 53,540	\$
704	Tenant revenue-other		
705	Total tenant revenue	53,540	
706	HUD PHA grants	28,085	
706.1	Capital grants		23,382
711	Investment income-unrestricted	3,680	
715	Other revenue	1,209	
700	Total revenue	86,514	23,382
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	19,089	
912	Auditing fees	2,100	
915	Employee benefit contributions-adm.	2,377	
916	Other operating-administrative	5,801	
	Tenant Services:		
924	Tenant services-other	688	
	Utilities:		
931	Water	7,992	
932	Electricity	5,496	
933	Gas	11,064	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	13,126	
942	Ordinary maint & oper-mat'ls & other	3,350	
943	Ordinary maint & oper-contract costs	7,505	
945	Employee benefit contributions- ordinary maintenance	920	
	General expenses:		
961	Insurance premiums	6,711	
969	Total operating expenses	86,219	
970	Excess operating revenue over operating expenses	295	23,382

Totals  
\$ 53,540

53,540  
28,085  
23,382  
3,680  
1,209

109,896

19,089  
2,100  
2,377  
5,801

688

7,992  
5,496  
11,064

13,126  
3,350  
7,505

920

6,711

86,219

23,677

ELK RAPIDS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended September 30, 2005  
 =====

FDS Line Item No.		C-3093 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
974	Depreciation expense	<u>29,046</u>	<u>260</u>
	Total other expenses	<u>29,046</u>	<u>260</u>
900	Total expenses	<u>115,265</u>	<u>260</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	( 28,751)	23,122
1104	Prior period adjustments, equity transfers and correction of errors	38,334	(37,030)
1103	Beginning Net Assets	<u>434,898</u>	<u>37,030</u>
	Ending Net Assets	<u>\$ 444,481</u>	<u>\$ 23,122</u>

Totals

29,306

29,306

115,525

( 5,629)

1,304

471,928

\$ 467,603

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Elk Rapids Housing Commission  
Elk Rapids, Michigan

I have audited the financial statements of the business-type activities of the Elk Rapids Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated December 19, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated December 19, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Elk Rapids Housing Commission  
Page Two

***Compliance and Other Matters - Continued***

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated December 19, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Bary E. Tardiff, CPA*

December 19, 2005

ELK RAPIDS HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
MARCH 31, 2005  
=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no adjusting journal entries.



ELK RAPIDS HOUSING COMMISSION  
INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2005

ELK RAPIDS HOUSING COMMISSION  
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SEPTEMBER 30, 2005

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Management Advisory Comments	4
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**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Elk Rapids Housing Commission

I have audited the financial statements of the Elk Rapids Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated December 19, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments (if any), in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entries).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

*Bany E. Landolt, CPA, PC*

December 19, 2005

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49636  
(231) 946-8930  
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Elk Rapids Housing Commission

I have audited the financial statements of the Elk Rapids Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated December 19, 2005. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

December 19, 2005

ELK RAPIDS HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
September 30, 2005  
=====

**Petty Cash, Change Fund, and Laundry Equipment Fund**

The general ledger of the Housing Commission shows a balance of \$85 for petty cash, change fund, and laundry equipment fund, but the Executive Director said these funds do not exist.

We recommend that the fee accountant adjust these accounts to zero.

**Credit Card**

The Housing Commission appears to be using the credit card more this year. The balances paid on April 13, 2005 was \$2,890.20, on June 21, 2005 was \$8,400.85, on July 21, 2005 was \$2,428.19, on August 19, 2005 was \$7,359.89, and on September 16, 2005 was \$3,424.41.

Although these credit card purchases may have been allowed according to the credit card policy, I am recommending that the Housing Commission try to limit the credit card usage to travel related expenses and other smaller expenditures when it is convenient to use the credit card. I recommend that the credit card policy be changed to have a dollar limit per purchase be stated and what types of expenditures are allowed. These recommendations will improve the internal control of the Housing Commission in the disbursement area.

**Filing of Invoices**

The Housing Commission currently files by month, it appears. During my test of expenditures it was difficult to locate the invoices to test.

I recommend that the check stub and the attached invoice be filed either by vendor or by check number order. I believe that a new filing system will improve internal controls of the Housing Commission.

ELK RAPIDS HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
September 30, 2005  
=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

Adjusting journal entries were not necessary.